

State of Connecticut

DENISE L. NAPIER
TREASURER



Hartford

June 6, 2012

Members of the Investment Advisory Council

Re: Report on the actions of the Office of the Treasurer under Connecticut's Sudan and Iran laws

Dear Fellow IAC Member:

Enclosed is a report by Shelagh McClure, Director of Compliance, regarding activities of the Treasurer's Office under Connecticut's Sudan law, Conn. Gen. Stat. §3-21e and Connecticut's Iran law, Conn. Gen. Stat. §3-13g, during Fiscal Year 2012.

I look forward to your comments on this report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Denise L. Nappier", enclosed within a circular ink smudge or flourish.

Denise L. Nappier
State Treasurer

OFFICE OF THE STATE TREASURER
MEMORANDUM



TO: **Hon. Denise L. Nappier**
Treasurer

FROM: **Shelagh P. McClure** *SPM*
Director of Compliance

DATE: **June 6, 2012**

SUBJECT: **Sudan**

The purpose of this memo is to report on the status of our Sudan and Iran initiatives. Pursuant to Conn. Gen. Stat. §§3-21e and 3-13g, the Treasurer is required to report at least once per fiscal year to the Investment Advisory Council on actions taken under each of these statutes.

Sudan

Action Taken

1. Following the recommendation of staff, on June 1, 2012, the Treasurer approved divestment from and prohibition on direct investment in the following companies including their majority-owned subsidiaries, each of which is in the weapons sector and has been reported as providing military equipment to the Government of Sudan:

AviChina Industry and Technology Ltd.
Jiangxi Hongdu Aviation Industry Ltd.
China North Industries Corporation

At the time of the decision, CRPTF had no holdings in any of the companies.

Background

In April, 2011 letters were sent to the above companies, all based in China, seeking information on their activities in Sudan. Notice was provided, as required under the federal Sudan Accountability and Divestment Act, that action up to and including divestment was being considered and that the company had at least ninety (90) day to respond to the inquiry. None of the companies responded to our letter.

The companies were selected based upon their involvement in the manufacture of military equipment and weapons, and reports of past sales to the Government of Sudan. The timing of the engagement was driven by the concern of violence in the lead up to the independence referendum in South Sudan. Although the referendum proceeded peacefully, and South Sudan voted for independence in July 2011, it has been followed by increasing violence between Sudan and the newly formed South Sudan, reminiscent of the 20 year civil war that ended in 2005. Tensions over distribution of oil revenues, disputed claims to land along the border, as well as long-standing tribal disputes, have led to escalating violence. The history of weapons being used by the military against civilians in the Darfur region, as well as the horrific toll of the civil war, which had between 1 and 2 million victims, are sufficient cause to inquire into the activities of the companies that are reported to be supplying weapons and aircraft in the region. It is worth noting that not only have these companies failed to respond to our recent letters, but each company has been sent regular inquiries since 2007 by the Conflict Risk Network (CRN), of which the Connecticut Treasurer is a member, but CRN has never received a response. The failure to respond to lawful inquiries is a factor the Treasurer may consider when determining whether divestment/prohibition on investment is warranted.

Set forth in **Exhibit A** is additional information on the three companies.

We are in the process of notifying CRPTF managers of the foregoing action. In addition, as required by federal law, the United States Department of Justice will be notified of the Treasurer's determination. Finally, letters have been sent to each of the three companies informing them of the action.

Exhibit B is a complete list of the companies that CRPTF managers have been prohibited from investing in under Connecticut's Sudan statute.

2. Following the amendment of Conn. Gen. Stat. §3-21e in the 2011 Legislative session to add "majority-owned subsidiaries" to the definition of "company," letters are being sent to the following companies:

China National Petroleum Corporation (CNPC) **
China Petrochemical Corporation (Sinopec Group)
Oil and Natural Gas Corporation Limited (ONGC)
Petroliaam Nasional Berhad (PETRONAS)

Each of these entities is the parent company in their corporate group, and each has at least one company within the group on the CRPTF's Sudan Restricted List, based upon reported business activities in Sudan. The letter notifies such companies of the Treasurer's intention expand the CRPTF's restricted list to include all entities in their corporate group, including majority-owned subsidiaries, but also providing the companies an additional opportunity to establish a dialogue with the Office of the Treasurer. The companies have 90 days to respond to the letter.

Iran

In the 2011 Legislative session, the Connecticut General Assembly amended Conn. Gen. Stat. §3-13g, Connecticut's Iran statute. The amended statute directs the Treasurer to review the holdings of the CRPTF for companies doing business in Iran and undertake engagement with such companies. The amended statute provides for a process similar to Connecticut's Sudan law, establishing criteria for the Treasurer to use to evaluate companies with Iran business activities and authorizes actions up to and including divestment if warranted. Also similar to the Sudan statute, there is federal law, the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA), which endorses state Iran divestment laws by specifically exempting such laws from federal preemption, but only to the extent the state law is directed to companies in Iran's energy sector.

Action Taken

One challenge that faced CRPTF was establishing a reliable source of information on which companies are conducting business in Iran. A federal source has been identified, in that pursuant to CISADA, the GAO has been providing reports every six months to the Chair and Ranking Member on the Senate Committee on Homeland Security and Governmental Affairs on companies engaged in business in the energy sector in Iran.

In March, letters were sent to 15 companies reported to be doing business in Iran's energy sector. Responses are due by June 30, 2012. Responses received will be reviewed and, thereafter, a recommendation will be made to the Treasurer regarding further action.

A list of the companies contacted regarding reported business activities in Iran is attached as **Exhibit C**.

EXHIBIT A

AviChina Industry & Technology Company Ltd.: AviChina Industry & Technology Company Ltd is a publicly traded Chinese helicopter and aircraft manufacturer. There are confirmed reports that the company sold 12 military training/attack aircraft to Sudan in 2007, and reports that the company has been selling military aircraft to Sudan since 2001. In addition, a publicly traded subsidiary of the company, Harbin Dongan Auto Engine Company, has performed helicopter repairs for the Government of Sudan in the past. In light of confirmed reports of past sales and repairs, information on the company's current activities in Sudan was sought, both by this office individually and by the Conflict Risk Network. No response has ever been received, despite several inquiries.

CRPTF holds no shares in AviChina or any of its subsidiaries at this time.

China North Industries Group

China North Industries Group is a state-owned company and the largest weapons manufacturer in China. It has several majority-owned publicly traded subsidiaries, including China North Industries Corporation (NORINCO). Use of NORINCO weapons has been documented in the conflict in Darfur, where there has been an arms embargo since 2005. The company sold weapons to the government of Sudan in 2009, and the government of Sudan has regularly moved weapons and military equipment into the Darfur region, despite of the embargo. The United Nations requested assistance from the company to trace ownership of weapons used in Darfur, but did not receive an answer from the company. In light of confirmed reports of past sales, the Office of the Treasurer individually, and the Conflict Risk Network each sought information on the company's current activities in Sudan. No response has ever been received, despite several inquiries.

CRPTF holds no shares in any of the publicly traded subsidiaries of China North Industries Group.

Jiangxi Hongdu Aviation Industry Co., Ltd.: This Chinese company is a former subsidiary of AviChina. It has been doing business in Sudan since at least 2005, comprised of sales of military aircraft to the Sudanese Air Force. Despite a UN arms embargo on sales of equipment for use in Darfur, the Government of Sudan regularly uses weapons and equipment in the region, in violation of the embargo. Companies with a confirmed history of supplying weapons and equipment to Sudan are rightfully subject to inquiries on the company's current activities there. The company has not cooperated with inquiries by this office individually or by the Conflict Risk Network.

CRPTF holds no shares of Jiangxi Hongdu Aviation Industry Company.

EXHIBIT B

Sudan Restricted Company List

Pursuant to Conn. Gen. Stat. §3-21e, the Office of the Treasurer prohibits direct investment in the following companies:

Bharat Heavy Electricals Ltd. (BHEL)
China Petroleum and Chemical Corp. (Sinopec Corp.)
CNPC (Hong Kong)
Dongfeng Motor Corporation
MISC Bhd
Nam Fatt Corp.
Oil and Natural Gas Corp. (ONGC)
PECD Group
PetroChina Co. Ltd.
Petronas Capital Ltd.
Sinopec Shanghai Petrochemical Corp.
Sudan Telecom (Sudatel)
Wartsila Oyj

Added June 1, 2012

AviChina Industry & Technology Ltd. **

Harbin Dongan Auto Engine Co.
Hafei Aviation Industry Co.

China North Industries Group

China North Industries Corporation a.k.a. NORINCO **
NORINCO International Cooperation Ltd.
Liaoning Huajin Tongda Chemicals Co. Ltd.
Sichuan Nitrocell Co. Ltd.
China North Optical-Electrical Technology Co. Ltd.
AKM Industrial Co. Ltd.

Jiangxi Hongdu Aviation Industry Ltd.

EXHIBIT C

Companies Reported to Conduct Business in Iran's Energy Sector

(contacted March 2012)

Belneftekhim/Belarusneft
China National Offshore Oil Corporation (China Oilfield Services Ltd.)
Daelim (Daelim Industrial Co. Ltd.)
Edison
Gail (India) Ltd.
Hyundai Heavy Industries
INA
Indian Oil Corporation Ltd. (IOCL)
Mitsui & Co. Ltd.
Oil India Ltd.
OMV
Petroleos de Venezuela S.A.
Sasol
Technip
Gazprom